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C O N F I D E N T I A L SECTION 01 OF 06 ABU DHABI 003851

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TAGS: [MCAPS](#) [PREL](#) [MASS](#) [MOPS](#) [BEXP](#) [AE](#)  
SUBJECT: UAE DEFENSE SPENDING

REF: A) ABU DHABI 3753, B) ABU DHABI 2782, C) 04 ABU DHABI  
2930

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Classified by Ambassador Michele J. Sison, reasons 1.4 (B)  
and (D).

Summary  
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¶1. (C) Estimates of the cumulative value of defense procurements by the UAE in recent decades reach well over 20 billion dollars (although the UAE does not publish its overall defense and security expenditures). Funded essentially by the Emirate of Abu Dhabi, that money has been spent on sophisticated weapons and defense systems from many countries, with no obvious master plan for an integrated defense network. UAE defense experts, including contractors and military advisors, say that only the best will do for this demanding customer, and that even the best technology must compete through a protracted and vigorous negotiation process. A UAE penchant for wanting only top-of-the-line capabilities often includes reaching into the future for systems still under development. "Spiraling" requirements can drag out negotiations almost endlessly, according to veterans of the military sales process.

¶2. (C) Beyond seeking world class capabilities, the UAE also actively divides up its procurement game between key international players; one contact called it "security council procurement." As the UAE seeks to diversify sources, it has often viewed sales procedures on U.S. goods, whether through Foreign Military Sales (FMS) or by direct commercial contract, as cumbersome; several key deals have gone to foreign competitors. One of the costs to the UAE of this "diversification" strategy is low interoperability between the various systems in its arsenal, and even the risk of incompatible defense systems failing to identify one another correctly as "friend or foe." Yet, a strategy of spreading the wealth usefully bolsters alliances with the UAE's various

source countries. End summary.

Defense budget opaque but large  
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13. (C) The overall size of UAE defense expenditures is difficult to determine; the budgeting process is extremely opaque, with considerable revenue and expenditure activity being handled "off-budget." Complicating the picture, the federal budget (arguably the least opaque) makes up only about 23% of total UAE spending. The Emirate of Abu Dhabi, on the other hand, chips in about 65%. Over the last 6 years, security spending has made up an average of 41% of the total federal budget. According to Ministry of Finance officials, aside from paying the salaries at the small Dubai-based Ministry of Defense, the Federal Government does not control defense spending. The Emirate of Abu Dhabi tells the federal government how much it will spend and funds defense-related items directly and "off-budget." IMF reports on the UAE (which contacts at Abu Dhabi's Department of Finance tell us are relatively accurate) note that Emirate of Abu Dhabi spending on federal services (mainly military and internal security expenditures not included in the federal accounts) have averaged about \$5.4 billion per year since 2000, with 2005 spending at just over \$6 billion.

Only the best will do  
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14. (C) Contacts uniformly noted that the UAE desires the best defense technology on the market, with the most capable upgrades; the shinier the better. GHQ personnel are very savvy about haggling over technical details, according to many who have negotiated with them, and GHQ frequently sets up a technical committee to explore the outer limits of

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possibility. Senior UAE military leaders also reach beyond existing technology and inquire about items still under development. More than one contact suggested that a conceptual layout of a new system in Defense News could spark inquiries, with the GHQ only later learning that the technology had not yet been invented, let alone proven effective. The UAE's technical teams know that they want the best and are always pushing the limits of what represents the top of the line.

15. (C) One consultant noted that GHQ technical committees are effective because they are "protected" from political pressure created by the strong business interests involved in defense procurements. Theirs is a technical task and they are able to focus on capabilities and requirements. That protection allows them to reach for the "next level" of capability without interference. A wise defense contractor will, according to this observer, be very responsive to any and all requests from this technical team and treat them to top notch product demonstrations at every opportunity. Others have commented that forward-leaning UAE demands have actually accelerated U.S. research and development on some programs and led to enhancements of value to the USG.

16. (C) Comment: A governing axiom driving the desire for more and better technology has its roots in the shallow talent pool available for the military to draw upon. The UAE population is slightly over 800,000; attracting qualified personnel to man the national defenses is a perennial challenge. Replacing human capital with equipment is thus seen as inherently positive. Although more technology leads to greater maintenance needs, many of those needs are met by foreign nationals, who represent a problem solved by budget resources, not Emirati human resources. (Note: Third Country Nationals, whether functioning as contractors or commissioned into the uniformed services, still present a Third Party Transfer barrier for high technology U.S. defense articles. End note.)

¶7. (C) While top-line technology is a must, cost and distribution of sources are also critical. The UAE political leadership balances sources to ensure a diversity of defense relationships; lower echelons in the defense procurement chain therefore keep all avenues open as they pursue new technologies. Diversity of sources has always been a political imperative in the UAE, a small country perceived as difficult to defend militarily. (Some contacts suggest that President Khalifa bin Zayed Al Nahyan, UAE Armed Forces Supreme Commander, feels the UAE has no prospects to "win" a military engagement with the big regional (let alone the larger international) players at any rate, and is therefore skeptical of the utility of a robust defense network. As the steward of Abu Dhabi's purse strings -- and very engaged in the revenue-earning oil side of Abu Dhabi finances -- Khalifa reportedly questions large expenditures on defense. Personnel identified as Khalifa loyalists are also in charge of the all-important Abu Dhabi Department of Finance, which controls the Emirate's expenditures.)

¶8. (C) Keeping multiple allies in the procurement game boosts economic ties as well as military cooperation with a broader range of potential partners. The UAE is strategically disinclined from consolidating its purchases. A long-time observer of Abu Dhabi Crown Prince and UAE Armed Forces Deputy Supreme Commander Mohammed bin Zayed Al Nahyan (MbZ) reiterated that avoiding "all eggs in one basket" was an imperative for the UAE leadership in spite of the desire for the best quality product. The operating principle is that the UAE must have "tentacles" in multiple international arenas, he argued.

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¶9. (C) Another noted that MbZ's "defensive" procurement strategy goes well beyond "defense spending" and includes commercial contracts of all sorts. Playing host to a significant U.S. investment in the oil sector can, for example, "keep the attention of the White House" and ensure increased U.S. interest in UAE security. A diverse investment portfolio can therefore be a core strategic asset.

You've got to shop around

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¶10. (C) The U.S. may be the strongest player in the defense arena and arguably offers the best technical solutions; the UAEG clearly seeks to nurture our military relationship. We offer high quality defense systems and the benefits of potential interoperability should a coalition operation become necessary. At the same time, however, the UAE is by no means a U.S.-only (or even a U.S.-dominated) defense market. While a large F-16 purchase represents a significant Air Force relationship, other nations also play key roles in that game and the U.S. is actually under-represented in the Army and Navy procurement arenas.

¶11. (C) Cooperation with the French (with the LeClerc tank, Mirage fighters, and Baynunah corvettes constituting major UAE purchases) is also seen as critical to the UAE's defensive engagement strategy. The UAE also dabbles in procurements with the British, which has a major stake in UAE military and police training programs. The UAE is reportedly in discussions with Russia about air defense systems still under development (ref A). Abu Dhabi's defense shopping habits are referred to by one long-time participant in the process as the "security council procurement policy." The UAE wants to show that it is a meaningful global player by engaging with the "big five" and spreading its wealth around within this influential group. That explanation rings true, even if it does not account for the relative insignificance of defense purchases from China (possibly due to China's generally inferior offerings in the defense arena, or the UAE

may see other commercial avenues as more effective in bolstering ties with Beijing). Beyond the "P-5," the UAE also has significant defense business with Germany (NBC armored reconnaissance vehicles, mine hunting ships, military communications, missile patrol boats), Sweden (co-production of 12 fast troop-carrying ships, radars for new Baynunah corvettes), Italy (systems integration for Baynunah corvettes via joint venture, possible future contract on maritime patrol aircraft), and South Korea (has the inside track on contract for an advanced jet trainer). South Africa, Pakistan, and India also have pieces of the pie.

¶12. (C) The delicate balance of sources is much more complex than simply deciding which system to buy, and raises troublesome issues about mixing bits and pieces of diverse systems. In one case, the UAE reportedly clung tightly to the LU-2 French communications systems in spite of the obvious benefits (quality and interoperability) available with U.S. LINK 16 technology. Undaunted, the UAE sought a mix-and-match solution and began asking whether U.S. communications systems could be integrated with the French Mirage. System compatibility issues carry attendant dangers -- especially in communications and air defense networks which rely heavily on identification of friend or foe -- and can expose a military to the hazard of shooting down the wrong plane.

¶13. (C) The complex task of tying diverse systems together militarily is daunting. One expert called it "an operations officer's nightmare come true." Nonetheless, the UAEG is not -- and never has been -- willing to tie its international cooperation to any one nation; the UAEG willingly faces the dilemma of assembling a coordinated defensive capability with the inherent complexities of a diverse and often mutually-conflicting array of weapons systems. It chooses,

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according to one analyst, to "close no doors."

U.S. rules hard on customers

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¶14. (C) While keeping all avenues open in engaging with its large western allies, especially given the uncertain neighborhood in which the UAE is located, the nation often finds non-U.S. sources more user-friendly than the complicated procedures and caveats imposed by the United States. With intricate Foreign Military Sales (FMS) and commercial regulations, coupled with politically-charged Congressional attitudes always looming in the background, the UAE often shops elsewhere for reliable and timely procurements. The UAE frequently cites concerns over export control stipulations and end-use monitoring, occasionally evidencing an attitude of "we paid for this, it's ours." Representatives of a large U.S. concern said that French industry cooperates with government such that a French weapons proposal is, from the beginning of negotiations with the UAE, a vetted offer that is clearly feasible and coordinated. Industry representatives complain that the U.S., on the other hand, often introduces complications into discussions late in the game and U.S. industry must lobby the USG to make its proposals feasible.

Interest in local production

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¶15. (C) The UAE is also moving to set up local production of defense articles, both as a means of avoiding export restrictions and cumbersome end-use caveats imposed by foreign suppliers, and for promoting local industry as the nation seeks to diversify its economy. Examples of systems being pursued include UAVs (including a helicopter version being tested by UAE troops deployed in Afghanistan), ships (the first of six "Baynunah" corvettes for coastal patrol is being produced in France, with the remainder scheduled for production in the UAE), rockets (180 cm rockets for

helicopters developed by the Advanced Institute for Special Operations), swimmer delivery vehicles (coordinated by Emirates Marine Technologies as delivery vehicles for special operations), and interest in satellite imagery systems. Local production has the advantage of local control over the production process; many projects would also involve a foreign partner and thus fit well into the UAE's share-the-wealth strategy of bolstering potential defensive alliances.

A billion here, a billion there: One dirham at a time  
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¶16. (C) In the high-stakes financial quest for defense, experts suggest that the GHQ has a spending threshold of 15 million dollars beyond which it must gain higher level approval. Few major systems fall within that threshold, thrusting the decision upward to the level of Abu Dhabi's ruling Al Nahyan brothers. The Al Nahyan do not necessarily share views on defense, however (see paragraph 7 above). President Khalifa bin Zayed reportedly keeps tighter control of the purse strings than did Zayed, his father. Khalifa's half brother MbZ, who has played a central role in the defense arena under both Zayed and Khalifa, might have been able, contacts suggest, to talk his father into an "off budget" requirement whenever the need arose. Under the fiscal discipline (at least in defense) of Khalifa, however, experts suggest MbZ has a harder time arguing that expensive new systems are right for national security.

¶17. (C) Note: Khalifa has put extensive resources to bear in seeking to enhance critical infrastructure protection, having reportedly been convinced that oil revenues are vulnerable when related infrastructure is overly exposed (see ABU DHABI 2782 and previous).

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¶18. (C) Note continued: No contacts interviewed suggested a significant role for Dubai ruler and nominal UAE Minister of Defense Mohammed bin Rashid Al Maktoum in the defense procurement arena. End note.

¶19. (C) The UAE has no published defense procurement budget. Some argue that "there is no defense budget" at all, suggesting that large expenditures are particularly prone to senior leadership perspectives -- including the President's views. (Others cite a nominal percentage of GDP established to cover salaries, exercise costs, logistics, uniforms, etc., but not major purchases.) At present, GHQ is reportedly aggregating its known major purchase projections and lobbying to have these included in a formal budget process to seek greater clarity regarding what large purchases are likely to get funded in advance. End note.) Price is indeed a concern at this senior level, a reality which forces GHQ to put the squeeze on costs at all stages of negotiation.

¶20. (C) The offsets program is indicative of a significant attempt to ensure maximum economic benefit from defense dollars spent. Purchases (particularly those over \$10 million) require an offset investment, in areas not directly related to the purchase/project itself, which generates an "economic value" of 60% of the worth of the contract over a seven-year period. The result has arguably stimulated economic expansion in non-defense areas. As an example, the Gulf Diagnostic Center, a medical clinic frequented by expatriate residents in Abu Dhabi, began as an offset requirement for a defense sale, yet has since been sold and has no current ties to the contractor which set up the original offset. Some argue that offsets are subject to extensive political maneuvering -- where there is money there are politics; nonetheless, the effort exemplifies a strong UAE desire to gain more from its defense dollars.

Spiraling requirements -- the elusive end game  
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¶21. (C) Defense contractors speak of a UAE penchant for constant modification of requirements. GHQ continues negotiations throughout this "spiraling" discussion of UAEG demands. Price may not enter into the discussion at first, as the UAEG's technical appetite reaches ever higher, but clearly complicates the discussions as senior decision-making levels become engaged. Price and technical requirements, therefore, can be debated endlessly. One astute observer noted that "the wind is always blowing, but the dunes shift slowly."

¶22. (C) Citing the F-16 deal as an example of ever-increasing UAE demands, parties involved in that transaction say it was still being negotiated "at the altar." Requirements spiraled at each stage of negotiations. No final conclusion was reached until the contract was signed -- and even that reportedly involved MbZ calling off "parallel negotiations" being held elsewhere even as he prepared to sign the final document. For the contractor, balancing the increasing technical demands with increased cost pressure is indeed a delicate juggling act.

¶23. (C) One UAEG goal appears to be, according to a number of contractors, to keep multiple competitors in the game as long as possible. One stated that "three competitors" is a rule of thumb. Thus, even as a firm senses it may be winning a bid -- as it is asked for further information -- the reality may be that the customer is only pressing for a better deal and giving a similar impression to multiple bidders so that each will refine its offer. A proposal must indeed be in the "top three" to pass muster with the technical committee, according to one observer.

Conclusions: Shifting predictability

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¶24. (C) Political considerations are, by definition, a moving target. The criteria guiding decisions at the ruling levels of the UAE are no exception and shift with the times. Nonetheless, UAEG desires for good relations with key states, the U.S. first and foremost, form consistent political imperatives which underpin a dynamic decision-making process. The U.S. contractor community, for its part, has shown its staying power in pursuing contracts with an often difficult negotiating partner, reaping significant, if not ideal, results.

¶25. (C) Other "constants" in the UAE defense procurement game include a desire for the best -- constant pursuit of ever-more-modern results. The goal of "best and newest," however, does not suggest that the UAE has money to burn, and the GHQ will squeeze out the best deal it can muster in an extended negotiating process. After hard bargaining at the GHQ level, senior level politics invariably intervene to ensure careful stewardship of UAEG resources and a balancing of relations with key international players.

¶26. (C) Comment: While UAE procurement decisions are not a predictable process, they play out in an arena reasonably familiar to the USG and American suppliers, whose self interest will keep them actively engaged in the high stakes world of security assistance for the foreseeable future. End comment.  
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